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How did we get here?

A brief history of Indiana's finances

Gov. Frank O'Bannon called a special legislative session this year to deal with escalating problems in the state budget. Indiana used to have a budget surplus. What changed?

After the longest economic expansion on record in the 1990s, Indiana's coffers were full to overflowing. Legislators opted to cut taxes rather than keep such a large surplus, and returned over $1.5 billion in taxes since 1996. Those cuts aided homeowners, renters, the working poor, senior citizens, farmers and small businesses. Lawmakers also approved one-time spending that improved Indiana roads and school buildings.

Imagine if your paycheck was 14% smaller this month.

By January of 2000, the national economy was slowing and Medicaid costs were rising. Forty-four states including Indiana were facing budget shortfalls. Last July Gov. O'Bannon ordered $113 million in one-time cuts in an effort to address the growing budget deficit.

The terrorist attacks last September only exacerbated the situation. Consumers spent less. Business slowed, cutting production and jobs. That meant less money flowed into the state accounts from sales taxes, inventory taxes and individual and corporate income taxes.

In May of this year, Indiana revenue collections were 14.7 percent below expectation. Imagine if your paycheck was 14 percent smaller this month. You would find ways to cut back, and then you would re-evaluate your situation.

Gov. O'Bannon made a total of $949 million in spending cuts in Fiscal Year 02, but our state was still in the red. The legislature met to re-evaluate. House Bill 1001 is the result.

Special Session: Bipartisan Success

New plan to cut property taxes, attract business to state

Summer, 2002

Dear Friends:

In the final days of the recent special session, members of the General Assembly passed a *bipartisan* program that will significantly impact the lives of most people in this state.

This plan, contained in House Bill 1001, provides answers to several serious questions facing Indiana. It protects property owners from the impact of the court-ordered reassessment. It provides funding to help support critical state programs and services. Also, it restructures our state's tax code to provide more economic incentives to help create more jobs for Hoosiers. (See the back of this card for more details.)

The most significant part of House Bill 1001 is the relief it will provide for home, farm and business owners from the court-ordered property reassessment. In 2003 the average homeowner in Brown County will pay 15 percent less in property taxes; the average Greene County resident will pay 20 percent less and the average Monroe County resident will pay 18 percent less.

Most of the relief to homeowners will come through shifting 60 percent of school operating costs to the state, implementing a standard deduction of $35,000 on all homes and increasing the homestead credit to 20 percent.

We also provide help to working families on lower incomes by increasing the earned income tax credit. Renters will receive an increase in the deduction they can take on their state income tax returns.

Rep. Welch discusses legislation with Rep. Pat Bauer (D-South Bend).

House Bill 1001 makes significant strides in changing our state's tax code to encourage economic development. We will eliminate Indiana's corporate gross income tax on January 1, 2003, and eliminate the inventory tax by 2007. Business leaders consider these changes crucial to expand current businesses and entice companies to locate here and create jobs for Hoosiers.

Property tax reform

- Increases Homeowners Exemption from $6,000 to $35,000
- Eliminates 60 percent of School General Fund Levy through state-paid Property Tax Replacement Credit
- Increases Homestead Credit from 4 percent to 20 percent
- Establishes new 20 percent Property Tax Replacement Credit on all individual and business real property

Finally, we make several changes in th state's gaming industry that can help Indiana remain competitive with surrounding states. Riverboat operators will be given the option of allowing continuous access to casinos, a process commonly known as dockside gaming. Additionally, this bill creates a revenue sharing plan that will pro vide all Indiana counties with a portion of the proceeds generated by the riverboats.

There are tax increases included in this legislation, but they are designed to provid funding assistance in crucial areas. See the back of this card for a tax comparison with neighboring states.

House Bill 1001 does not contain all the reforms I would have liked. We still must work on long-term solutions that can keep our state moving forward.

If you would like more details on HB 1001, please contact me.

Economic development for Indiana

House Bill 1001 assists economic development across Indiana, and it couldn't come at a better time. In recent years Indiana has lost more manufacturing, retail and service jobs than anywhere else in the United States, and that certainly has had a negative economic impact in our state.

How do we create more jobs for Hoosiers? We must create an environment where businesses will want to come to Indiana, and where existing companies will want to expand their operations.

House Bill 1001 addresses these concerns in several ways:

• It eliminates the unpopular inventory tax over a five-year period. Indiana is one of the few states in the country that still imposes this penalty on businesses.

• It also removes both the corporate gross income tax and the corporate supplemental net income tax. It replaces these taxes with a tax on a company's adjusted gross income.

Restructuring the tax burden for employers is only one part of the puzzle. We also must help companies by creating an environment where they can take advantage of the cutting edge technology that enables our state to be competitive in a changing global economy. Several provisions in House Bill 1001 help achieve this goal:

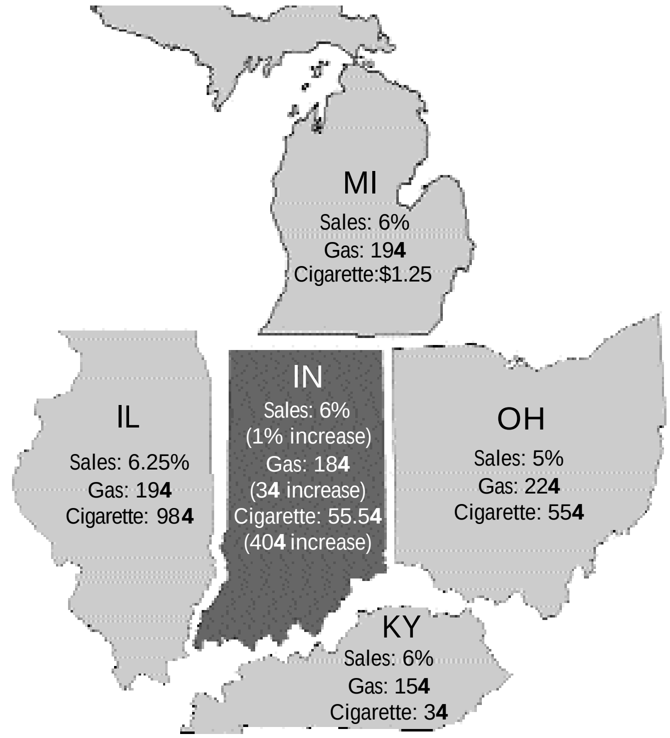
• It allocates tax credits to companies that provide venture capital to startup firms.

• It doubles the state's research and development tax credit to 10 percent.

• It provides $30 million for the 21st Century Research and Technology Fund for 2003 and 2004.

The impact of these changes will be felt in the years to come. Hoosier business owners will think twice about relocating to another state, and companies will find new incentives to locate here. Companies will find an economic profile dedicated to creating well-paying jobs. They will be even more inclined to take advantage of the Hoosier work ethic that has made us the envy of other states. With the provisions for economic development in House Bill 1001, Indiana is back on track.

How does Indiana rank with its neighbors?



Data from the Federation of Tax Administrators

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